Small Business Technology Coalition

Testimony of

Ed Wenger

President and CEO
Prospective Computer Analysts, Inc.
Garden City, NY

And Chairman of the Board
Small Business Technology Council

BEFORE THE COMMITTEE ON SMALL BUSINESS AND ENTREPRENEURSHIP
UNITED STATES SENATE

Regarding the Fiscal Year 2003 Proposed Budget for the US Small Business Administration

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Chairman Kerry, Senator Bond, members of the Committee, thank you for inviting the Small Business Technology Council to offer its views on the proposed SBA budget for Fiscal Year 2003.

I am Ed Wenger, the Chairman of SBTC's Board. SBTC is a nonpartisan, nonprofit industry association dedicated to promoting the creation and growth of research-intensive, technology-based US emerging businesses. SBTC is a council of National Small Business United (NSBU), the nation's oldest small business advocacy organization.

I am also the President and CEO of Prospective Computer Analysts, Inc., of Garden City, New York, a company that I founded in 1975. I have a background in engineering and law, and I have served as Chairman of the American Bar Association Committee on Computer Software Protection. I also helped shape technology and procurement issues for the White House Conference on Small Business in 1995.

My company produces software for testing, quality assurance, training and knowledge storage, as well as automatic test equipment products and antenna couplers. We have facilities in four states -- California, Florida, Georgia and New York -- and we sell our products both in the US and abroad.

Small Technology Companies and the SBA

The US Small Business Administration supports the development of small, technology-based companies in a number of ways. Broad programs like 7(a) lending, Small Business Investment Companies and the ACE network all contribute. But the most crucial role that SBA plays for the largest number of small technology companies is in administering the Small Business Innovation Research and Small Business Technology Transfer programs.

Both programs have been remarkable success stories. Scores of important innovations -- in basic science, in health care, in energy, in the space program -- have emerged from SBIR and STTR. Small business participants in these programs also have made significant contributions to national defense and homeland security, which are especially critical concerns today.

Under SBIR, the federal agencies that do the most extensive research use small businesses to help them. These agencies ask small businesses to undertake research

projects that support the agencies' missions and research needs. The resulting proposals are competitively bid and evaluated. A small portion of the agencies' research budgets is allocated to fund them. Later on, a select number of these projects are carried forward from concepts to prototypes to full commercialization through Phases II and III of SBIR.

Because every objective assessment of SBIR over the past twenty years has concluded that the program works well, and because a number of agencies are enthusiastic supporters of it, the size of the program has grown. In Fiscal Year 1991, for example, SBIR awards totaled $483 million government-wide. By FY2000 this figure had grown to $1.1 billion.

Meanwhile, the STTR program has grown from $18 million at its inception in FY1994 to $69 million in FY2000. Last year, with this Committee's strong support, the program was doubled in size.

SBA's Office of Technology

Monitoring and administering programs of this size is a serious responsibility. And SBTC is concerned that SBA is not keeping up with that responsibility.

SBA's budget numbers are revealing. As SBIR and STTR have grown, SBA's Office of Technology, which administers both programs, has shrunk.

In FY1991, the Office of Technology had a budget of $907,000 and a staff of ten. By FY 2000, the budget had been cut almost in half, to $530,000. And the staff had been reduced to six. Today, the Office's budget is even smaller, and its staff is down to five.

In 1991, the Office of Technology reported directly to the SBA Administrator. Later on, it reported to the Deputy Administrator. Now it reports to mid-level officials well below either of them.

The impact of the cuts and the lower visibility has not been hard to detect.

- When SBIR was reauthorized in December of 2000, Congress told SBA to publish new guidance for the agencies on Phase III of SBIR by the summer of 2001. To date, that guidance still has not been finalized. Consequently, agencies across the government have become increasingly uncertain about how to manage Phase III. Companies that might participate in the program are unsure about what will be expected of them.

- Toward the end of last year, one element of the Defense Department, the Ballistic Missile Defense Organization (now called the Missile Defense Agency), asked the House Appropriations Committee to reduce its SBIR program from about $147 million to a "minimum" of $75 million. SBA expressed no opinion on this unprecedented breach of the SBIR program, either to the House appropriators, the conferees, or even the Congressional Small Business Committees, and it was enacted.

- In 2000, Congress mandated that a database of companies receiving SBIR awards be created. To date, SBA's databases of SBIR awards are incomplete beyond 1998. So it is hard to know if there are problems at the agencies making the awards.

- SBA's five-year *Strategic Plan*, a 43-page document posted on the agency's website, makes only the barest passing references to SBIR and STTR. Neither the *programs nor their objectives are mentioned at all in such sections of the Strategic Plan* as: "Who We Serve – Our Customers", "How We Work – Our Core Values", "How We Make A Difference", "Resource Partners", "Data Quality", "Future Program Evaluations" and "Mission". And while specifying performance and outcome measurements for most other functions of SBA, the *Strategic Plan* specifies none for SBIR or STTR.

SBTC is pleased that the Committee's Chairman, Senator Kerry, raised concerns about the Office of Technology's downward spiral at the confirmation hearing for SBA Administrator Hector Barreto. And we trust that Mr. Barreto has now had time to examine the situation and recommend improvements.

We also applaud Senators Kerry and Bond for sending a bipartisan letter to Defense Secretary Rumsfeld, reminding him of the Department's statutory obligations under SBIR, notwithstanding the appropriations carve-out claimed by BMDO / MDA.

A Need For A Different Budget Priority

Perhaps we need to say it again. The SBIR and STTR programs are vital to this country's small technology companies. They are vital to our nation's quality and quantity of technological innovation, which is a foundation of our economic growth and our place in the world.

And the historical record shows that they are vital to America's defense and homeland security.

The Office of Technology at SBA is to a considerable degree in charge of all this.

It is also in charge of monitoring the expenditure of more than a billion dollars a year of the taxpayers' money. That money is going out in small awards which urgently require SBA guidance and oversight.

There is not a single venture capital fund, anywhere in the world, larger than the SBIR/STTR programs. Nor is there a single one anywhere better situated to leverage technology for the overall good of the United States.

And yet, is there a venture capital fund anywhere, of even a fraction this size, so thinly resourced and staffed? Is there a parent company anywhere that would be as indifferent to this unique resource as SBA seems to be? A parent company that would set up an *inverse relationship between the funds under management and the capability to manage those funds?*

Leaving the Office on its current downward glidepath is an invitation to more and bigger problems.

3

SBTC strongly urges this Committee to reverse SBA's course and provide the Office of Technology with the resources and the standing within SBA that it needs to handle its critical responsibilities.